

Review Ch 5-7

Wednesday, November 2, 2022 9:04 PM

5 T&F and 5 M/C will cover concepts outlined in these slides

Classified Balance Sheet Example

Exhibit
4.9

SNOWBOARDING COMPONENTS					
Balance Sheet					
December 31, 2021					
Assets			Liabilities		
Current assets			Current liabilities		
Cash	\$ 6,500		Accounts payable	\$ 15,300	
Accounts receivable	6,500		Wages payable	3,200	
Merchandise inventory	27,500		Unearned revenue	<u>10,500</u>	
Prepaid insurance	<u>2,400</u>		Total current liabilities		\$ 29,000
Total current assets		\$ 42,900	Long-term liabilities		
Long-term investments			Notes payable (due in ten years)	<u>40,000</u>	
Notes receivable (due in three years)	1,500		Total long-term liabilities		<u>150,000</u>
Investments in stocks and bonds	<u>66,000</u>		Total liabilities		179,000
Total long-term investments		67,500	Equity		
Plant assets			T. Hawk, Capital		164,800
Equipment	203,200				
Less accumulated depreciation	<u>53,000</u>	150,200			
Land		<u>73,200</u>			
Total plant assets		223,400			
Intangible assets		<u>10,000</u>			
Total assets		<u>\$343,800</u>	Total liabilities and equity		<u>\$343,800</u>

Perpetual systems

- Updates accounting records for each purchase and each sale of inventory.

Periodic systems

- Updates accounting records for purchases and sales of inventory only at the end of a period.

Internal Controls and Taking a Physical Count

Most companies take a physical count of inventory at least once each year.

Physical count is used to adjust the inventory account balance to the actual inventory available.

Good internal controls over the inventory count include:

1. Prenumbered inventory tickets.
2. Counters have no inventory responsibility.
3. Counters confirm existence, amount, and condition of inventory.
4. Second count is taken by a different counter.
5. Manager confirms all items counted only once.

Inventory Turnover

Shows how many times a company turns over its inventory during a period. Indicator of how well management is controlling the amount of inventory available.

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}$$

Exhibit
6.13

$$\text{Average Inventory} = (\text{Beg. Inv.} + \text{End Inv.}) \div 2$$

Days' Sales in Inventory

Reveals how much inventory is available in terms of the number of days' sales.

Exhibit
6.14

$$\text{Days' sales in inventory} = \frac{\text{Ending inventory}}{\text{Cost of goods sold}} \times 365$$

Days' Payable Outstanding

Exhibits
7.12 & 7.13

$$\text{Days' payable outstanding} = \frac{\text{Accounts payable}}{\text{Cost of goods sold}} \times 365$$

Company	Figure (\$ millions)	Current Year	One Year Prior	Two Years Prior
Costco	Accounts payable	\$ 11,679	\$ 11,237	\$ 9,608
	Cost of goods sold	\$132,886	\$123,152	\$111,882
	Days' payable outstanding	32.1 days	33.3 days	31.3 days
Walmart	Days' payable outstanding	44.6 days	45.1 days	41.9 days

Goods in Transit

- FOB shipping point – goods included in buyer's inventory when shipped.
- FOB destination – goods included in buyer's inventory after arrival at destination.

Exhibit
6.1

Goods on Consignment

- Consignor: owner of goods.
- Consignee: sells goods for the owner.
- Merchandise is included in the inventory of the consignor.

- Consignee never reports consigned goods in inventory.

Goods Damaged or Obsolete

- Damaged or obsolete goods are not reported in inventory if they cannot be sold.
- Damaged or obsolete goods which can be sold are included in inventory at net realizable value.
- Net realizable value = sales price minus selling costs.
- Loss is recorded when damage or obsolescence occurs.

Determining Inventory Costs

Include all expenditures necessary to bring an item to a salable condition and location.

Inventory cost = Invoice cost - discounts + other costs

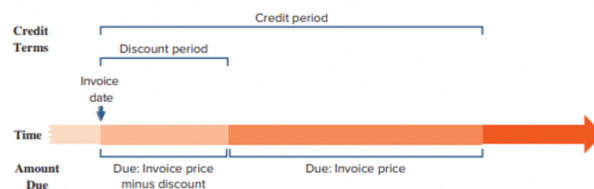
- Other costs include:

- Shipping
- Storage
- Insurance
- Import duties

Credit Terms

Sellers can grant a **cash discount** to encourage buyers to pay earlier.

Exhibit
5.5



2/10, n/30

↑ ↑ ↑ ↑



Four methods are used to assign costs to inventory and to cost of goods sold:

1. Specific identification
2. First-in, First-out (FIFO)
3. Last-in, First-out (LIFO)
4. Weighted average

Lower of Cost or Market.

Inventory must be reported at market value when market is **lower** than cost.

Defined as current replacement cost (not sales price).

Can be applied three ways:

- 1) separately to each individual item.
- 2) to major categories of assets.
- 3) to the whole inventory.

Exercises and Problems that could be on the test

question	question type	points	
Exercise 5-4 (Static) Purchasing transactions LO P1	General Journal	10.00	☐
Exercise 5-14 (Static) Accounting for shrinkage LO P3	Worksheet	10.00	☐
Exercise 5-1 (Static) Computing revenues, expenses, and income LO C1	Worksheet	10.00	☐
Problem 5-1A (Static) Preparing journal entries for merchandising activities LO P1, P2	Worksheet	10.00	☐
QS 6-1 (Static) Inventory ownership LO C1	Expanded table	10.00	☐
Exercise 6-1 (Static) Inventory ownership LO C1	Multiple choice	10.00	☐
Exercise 6-2 (Static) Inventory costs LO C1	Expanded table	10.00	☐
Exercise 6-16 (Static) Lower of cost or market LO P2	Expanded table	10.00	☐
Problem 6-9AB (Static) Retail inventory method LO P4	Expanded table	10.00	☐
Problem 6-10AB (Static) Gross profit method LO P4	Worksheet	10.00	☐
Exercise 7-1 (Static) Sales journal LO P1	Worksheet	10.00	☐
Exercise 7-3 (Static) Cash receipts journal LO P2	Worksheet	10.00	☐
Exercise 7-6 (Static) Purchases journal LO P3	Worksheet	10.00	☐
Exercise 7-7 (Static) Cash payments journal LO P4	Worksheet	10.00	☐
Use the following information for the Exercises 3-7 below. (Static)	Section Break		☐

Exercise 6-7A (Static) Periodic: Gross profit effects
of inventory methods LO P3, A1

Expanded table

10.00

Ex 5-4

Exercise 5-4 (Static) Purchasing transactions LO P1

Prepare journal entries to record the following transactions of Recycled Fashion retail store. Recycled Fashion uses a perpetual inventory system and the gross method.

- March 3** Purchased \$1,150 of merchandise from GreenWorld Company with credit terms of 2/15, n/60, invoice dated March 3, and FOB shipping point.
March 4 Paid \$75 cash for shipping charges on the March 3 purchase.
March 5 Returned to GreenWorld unacceptable merchandise that had an invoice price of \$150.
March 18 Paid GreenWorld for the March 3 purchase, net of the discount and the returned merchandise.
March 19 Purchased \$425 of merchandise from PeopleFirst Corporation with credit terms of 1/10, n/30, invoice dated March 19, and FOB destination.
March 21 After negotiations, received from PeopleFirst a \$25 allowance (for scuffed merchandise) toward the \$425 owed on the March 19 purchase.
March 29 Sent check to PeopleFirst paying for the March 19 purchase, net of the allowance and the discount.

No	Date	General Journal	Debit	Credit
1	Mar 03	Merchandise inventory	1,150	
		Accounts payable—GreenWorld		1,150
2	Mar 04	Merchandise inventory	75	
		Cash		75
3	Mar 05	Accounts payable—GreenWorld	150	
		Merchandise inventory		150
4	Mar 18	Accounts payable—GreenWorld	1,000	
		Merchandise inventory		20
		Cash		980
5	Mar 19	Merchandise inventory	425	
		Accounts payable—PeopleFirst		425
6	Mar 21	Accounts payable—PeopleFirst	25	
		Merchandise inventory		25
7	Mar 29	Accounts payable—PeopleFirst	400	
		Merchandise inventory		4
		Cash		396

Ex 5-14

Exercise 5-14 (Static) Accounting for shrinkage LO P3

At the beginning of the year, SnapIt had \$10,000 of inventory. During the year, SnapIt purchased \$35,000 of merchandise and sold \$30,000 of merchandise. A physical count of inventory at year-end shows \$14,000 of inventory exists. Prepare the entry to record inventory shrinkage.

No	Date	General Journal	Debit	Credit
1	Dec 31	Cost of goods sold	1,000	
		Merchandise inventory		1,000

Explanation:

Beginning inventory	\$ 10,000
Net purchases	+35,000
Merchandise available for sale	45,000
Cost of goods sold	-30,000
Ending inventory	15,000
Count of inventory	-14,000
Shrinkage	1,000

Ex 5-1

Exercise 5-1 (Static) Computing revenues, expenses, and income LO C1

Fill in the blanks in the following separate income statements a through e.

	a	b	c	d	e
Sales	\$ 62,000	\$ 43,500	\$ 55,000	\$ 79,000	\$ 25,600
Cost of goods sold					
Merchandise inventory, beginning	8,000	17,050	7,500	8,000	4,560
Total cost of merchandise purchases	38,000	1,950	43,750	32,000	6,600
Merchandise inventory, ending	11,950	3,000	9,000	6,600	4,160
Cost of goods sold	34,050	16,000	42,250	33,400	7,000
Gross profit	27,950	27,500	12,750	45,600	18,600
Expenses	10,000	10,650	12,150	3,600	6,000
Net income (loss)	\$ 17,950	\$ 16,850	\$ 600	\$ 42,000	\$ 12,600

Explanation:

- Find merchandise inventory (ending) by subtracting cost of goods sold from goods available for sale. Find gross profit as the difference between the sales and cost of goods sold. Find net income as the gross profit less the expenses.
- Find total cost of merchandise purchases by finding the number that makes the total equal the cost of goods sold. Find gross profit from sales less cost of goods sold.
- Find cost of goods sold from sales less gross profit. Find cost of merchandise purchases by finding the number to make the calculation equal cost of goods sold.
- Calculate cost of goods sold as usual. Calculate sales as gross profit plus cost of goods sold.
- Find merchandise inventory (ending) by subtracting cost of goods sold from goods available for sale. Find gross profit from sales less cost of goods sold. Find net income as gross profit less expenses.

Pr 5-1a

Problem 5-1A (Static) Preparing journal entries for merchandising activities LO P1, P2

Prepare journal entries to record the following merchandising transactions of Cabela's, which uses the perpetual inventory system and the gross method.

- July 1 Purchased merchandise from Boden Company for \$6,000 under credit terms of 1/15, n/30, FOB shipping point, invoice dated July 1.
 July 2 Sold merchandise to Creek Company for \$900 under credit terms of 2/10, n/60, FOB shipping point, invoice dated July 2. The merchandise had cost \$500.
 July 3 Paid \$125 cash for freight charges on the purchase of July 1.
 July 8 Sold merchandise that had cost \$1,300 for \$1,700 cash.
 July 9 Purchased merchandise from Leight Company for \$2,200 under credit terms of 2/15, n/60, FOB destination, invoice dated July 9.
 July 11 Returned \$200 of merchandise purchased on July 9 from Leight Company and debited its account payable for that amount.
 July 12 Received the balance due from Creek Company for the invoice dated July 2, net of the discount.
 July 16 Paid the balance due to Boden Company within the discount period.
 July 19 Sold merchandise that cost \$800 to Art Company for \$1,200 under credit terms of 2/15, n/60, FOB shipping point, invoice dated July 19.
 July 21 Gave a price reduction (allowance) of \$100 to Art Company for merchandise sold on July 19 and credited Art's accounts receivable for that amount.
 July 24 Paid Leight Company the balance due, net of discount.
 July 30 Received the balance due from Art Company for the invoice dated July 19, net of discount.
 July 31 Sold merchandise that cost \$4,800 to Creek Company for \$7,000 under credit terms of 2/10, n/60, FOB shipping point, invoice dated July 31.

No	Date	General Journal	Debit	Credit
1	July 01	Merchandise inventory	6,000	
		Accounts payable—Boden		6,000
2	July 02	Accounts receivable—Creek	900	
		Sales		900
3	July 02	Cost of goods sold	500	
		Merchandise inventory		500
4	July 03	Merchandise inventory	125	
		Cash		125
5	July 08	Cash	1,700	
		Sales		1,700
6	July 08	Cost of goods sold	1,300	
		Merchandise inventory		1,300
7	July 09	Merchandise inventory	2,200	
		Accounts payable—Leight		2,200
8	July 11	Accounts payable—Leight	200	
		Merchandise inventory		200

9	July 12	Cash	▼	882	
		Sales discounts	▼	18	
		Accounts receivable—Creek	▼		900
10	July 16	Accounts payable—Boden	▼	6,000	
		Merchandise inventory	▼		60
		Cash	▼		5,940
11	July 19	Accounts receivable—Art	▼	1,200	
		Sales	▼		1,200
12	July 19	Cost of goods sold	▼	800	
		Merchandise inventory	▼		800
13	July 21	Sales returns and allowances	▼	100	
		Accounts receivable—Art	▼		100
14	July 24	Accounts payable—Leight	▼	2,000	
		Merchandise inventory	▼		40
		Cash	▼		1,960
15	July 30	Cash	▼	1,078	
		Sales discounts	▼	22	
		Accounts receivable—Art	▼		1,100
16	July 31	Accounts receivable—Creek	▼	7,000	
		Sales	▼		7,000
17	July 31	Cost of goods sold	▼	4,800	
		Merchandise inventory	▼		4,800

QS 6-1

QS 6-1 (Static) Inventory ownership LO C1

Homestead Crafts, a distributor of handmade gifts, operates out of owner Emma Finn's house. At the end of the current period, Emma looks over her inventory and finds that she has

- 1,300 units (products) in her basement, 20 of which were damaged by water and cannot be sold.
- 350 units in her van, ready to deliver per a customer order, terms FOB destination.
- 80 units out on consignment to a friend who owns a retail store.

How many total units should Emma include in her company's period-end inventory?

Units in Ending Inventory:		
Units stored in basement	1,300	units
Add:		
Units in transit	350	
Units on consignment	80	
Less:		
Damaged units	(20)	
Total units in period-end inventory	1,710	units

Ex 6-1

1. At year-end, Barr Company had shipped \$12,500 of merchandise FOB destination to Lee Company. Which company should include the \$12,500 of merchandise in transit as part of its year-end inventory?
2. Parris Company has shipped \$20,000 of goods to Harlow Company, and Harlow Company has arranged to sell the goods for Parris. Identify the consignor and the consignee. Which company should include any unsold goods as part of its inventory?

Complete this question by entering your answers in the tabs below.

Required 1 Required 2

At year-end, Barr Company had shipped \$12,500 of merchandise FOB destination to Lee Company. Which company should include the \$12,500 of merchandise in transit as part of its year-end inventory?

Which company should include the \$12,500 of merchandise in transit as part of its year-end inventory? Barr Company ▼

< Required 1

Required 2 >

Explanation:

1. The title will pass at "destination," which is Lee Company's receiving dock. Barr should show the \$12,500 in its inventory at year-end as Barr retains title until the goods reach Lee Company.

2. The consignor is Parris Company. The consignee is Harlow Company. The consignor, Parris Company, should include any unsold and consigned goods in its inventory.

1. At year-end, Barr Company had shipped \$12,500 of merchandise FOB destination to Lee Company. Which company should include the \$12,500 of merchandise in transit as part of its year-end inventory?

2. Parris Company has shipped \$20,000 of goods to Harlow Company, and Harlow Company has arranged to sell the goods for Parris. Identify the consignor and the consignee. Which company should include any unsold goods as part of its inventory?

Complete this question by entering your answers in the tabs below.

Required 1 Required 2

Parris Company has shipped \$20,000 of goods to Harlow Company, and Harlow Company has arranged to sell the goods for Parris. Identify the consignor and the consignee. Which company should include any unsold goods as part of its inventory?

Identify the consignor.	Parris Company
Identify the consignee.	Harlow Company
Which company should include any unsold goods as part of its inventory?	Parris Company

< Required 1

Required 2 >

Ex 6-2**Exercise 6-2 (Static) Inventory costs LO C1**

Walberg Associates, antique dealers, purchased goods for \$75,000. Terms of the purchase were FOB shipping point, and the cost of transporting the goods to Walberg Associates's warehouse was \$2,400. Walberg Associates insured the shipment at a cost of \$300. Prior to putting the goods up for sale, they cleaned and refurbished them at a cost of \$980.

Determine the cost of inventory.

Cost of inventory	
Price	\$ 75,000
Transportation-in	2,400
Insurance on shipment	300
Cleaning and refurbishing	980
Total cost of inventory	\$ 78,680

Ex 6-16**Exercise 6-16 (Static) Lower of cost or market LO P2**

Martinez Company's ending inventory includes the following items.

Product	Units	Cost per Unit	Market per Unit
Helmets	24	\$ 50	\$ 54
Bats	17	78	72
Shoes	38	95	91
Uniforms	42	36	36

Compute the lower of cost or market for ending inventory applied separately to each product.

Inventory Items	Units	Per Unit		Total		LCM Applied to Items
		Cost	Market	Cost	Market	
Helmets	24	\$ 50	\$ 54	\$ 1,200	\$ 1,296	\$ 1,200
Bats	17	78	72	1,326	1,224	1,224
Shoes	38	95	91	3,610	3,458	3,458
Uniforms	42	36	36	1,512	1,512	1,512
				\$ 7,648	\$ 7,490	\$ 7,394

Explanation:

Lower of cost or market of inventory by product = \$7,394

P 6-9ab**Problem 6-9AB (Static) Retail inventory method LO P4**

The records of Alaska Company provide the following information for the year ended December 31.

	At Cost	At Retail
Beginning inventory, January 1	\$ 469,010	\$ 928,950
Cost of goods purchased	3,376,050	6,381,050
Sales		5,595,800
Sales returns		42,800

Required:

1. Use the retail inventory method to estimate the company's year-end inventory at cost.
2. A year-end physical inventory at retail prices yields a total inventory of \$1,686,900. Prepare a calculation showing the company's loss from shrinkage at cost and at retail.

Complete this question by entering your answers in the tabs below.

Required 1

Required 2

Use the retail inventory method to estimate the company's year-end inventory at cost. (Round your ratio calculations to 2 decimal places. (i.e. 10.15%))

	At Cost	Cost-to-Retail Ratio	At Retail
Beginning inventory	\$ 469,010		\$ 928,950
Cost of goods purchased	3,376,050		6,381,050
Cost of goods available for sale	\$ 3,845,060	52.60% +/- 0.01	\$ 7,310,000
Net sales at retail			(5,553,000)
Estimated ending inventory	\$ 924,182	52.60% +/- 0.01	\$ 1,757,000

< Required 1

Required 2 >

Explanation:

1.

ALASKA COMPANY Estimated Inventory December 31		
	At Cost	At Retail
Goods available for sale		
Beginning inventory	\$ 469,010	\$ 928,950
Cost of goods purchased	3,376,050	6,381,050
Goods available for sale	\$ 3,845,060	\$ 7,310,000
Sales		\$ 5,595,800
Less: Sales returns		(42,800)
Net sales		\$ 5,553,000
Ending inventory at retail (\$7,310,000 - \$5,553,000)		\$ 1,757,000
Cost-to-retail ratio: \$3,845,060 / \$7,310,000 = 0.526 or 52.6%		
Ending inventory at cost (\$1,757,000 × 52.6%)	\$ 924,182	

Problem 6-9AB (Static) Retail inventory method LO P4

The records of Alaska Company provide the following information for the year ended December 31.

	At Cost	At Retail
Beginning inventory, January 1	\$ 469,010	\$ 928,950
Cost of goods purchased	3,376,050	6,381,050
Sales		5,595,800
Sales returns		42,800

Required:

1. Use the retail inventory method to estimate the company's year-end inventory at cost.
2. A year-end physical inventory at retail prices yields a total inventory of \$1,686,900. Prepare a calculation showing the company's loss from shrinkage at cost and at retail.

Complete this question by entering your answers in the tabs below.

Required 1

Required 2

A year-end physical inventory at retail prices yields a total inventory of \$1,686,900. Prepare a calculation showing the company's loss from shrinkage at cost and at retail. (Round your ratio calculations to 2 decimal places. (i.e. 10.15%))

Company's loss from shrinkage at cost and at retail. (Round your ratio calculations to 2 decimal places, i.e., 10.13%)

ALASKA COMPANY		
Inventory Shortage		
December 31		
	At Cost	At Retail
Estimated inventory	\$ + / - 0.01% 924,182	\$ 1,757,000
Physical inventory	+ / - 0.01% 887,309	1,686,900
Inventory shortage	\$ + / - 0.01% 36,873	\$ + / - 0.01% 70,100

< Required 1

Required 2 >

2.

Estimated physical inventory at cost: $\$1,686,900 \times 52.6\% = \$887,309$

References

P 6-10ab

Problem 6-10AB (Static) Gross profit method LO P4

Wayward Company wants to prepare interim financial statements for the first quarter. The company wishes to avoid making a physical count of inventory. Wayward's gross profit rate averages 34%. The following information for the first quarter is available from its records.

Beginning inventory, January 1	\$ 302,580
Cost of goods purchased	941,040
Sales	1,211,160
Sales returns	8,410

Required:

Use the gross profit method to estimate the company's first-quarter ending inventory.

Beginning inventory, January 1	\$ 302,580
Net cost of goods purchased	941,040
Cost of goods available for sale	\$ 1,243,620
Estimated cost of goods sold	+ / - 0.01% (793,815)
Estimated March 31 inventory	\$ + / - 0.01% 449,805

Explanation:

WAYWARD COMPANY	
Estimated Inventory at March 31	
Goods available for sale	
Beginning inventory, January 1	\$ 302,580
Cost of goods purchased	941,040
Goods available for sale	\$ 1,243,620
Less estimated cost of goods sold	
Sales	\$ 1,211,160
Less sales returns	(8,410)
Net sales	\$ 1,202,750
Estimated cost of goods sold [$\$1,202,750 \times (1 - 34\%)$]	(793,815)
Estimated March 31 inventory	\$ 449,805

Ex 7-1

Exercise 7-1 (Static) Sales journal LO P1

Finer Company uses a sales journal, purchases journal, cash receipts journal, cash payments journal, and general journal.

- May 2** Sold merchandise costing \$300 to B. Facer for \$450 cash, invoice number 5703.
May 5 Purchased \$2,400 of merchandise on credit from Marchant Corporation.
May 7 Sold merchandise costing \$800 to J. Dryer for \$1,250, terms 2/10, n/30, invoice number 5704.
May 8 Borrowed \$9,000 cash by signing a note payable to the bank.
May 12 Sold merchandise costing \$200 to R. Lamb for \$340, terms n/30, invoice number 5705.
May 16 Received \$1,225 cash from J. Dryer to pay for the purchase of May 7.
May 19 Sold used store equipment (noninventory) for \$900 cash to Golf, Incorporated.
May 25 Sold merchandise costing \$500 to T. Taylor for \$750, terms n/30, invoice number 5706.

Journalize the following transactions that should be recorded in the sales journal.

SALES JOURNAL				
Date	Account Debited	Invoice Number	Accounts Receivable Debit Sales Credit	Cost of Goods Sold Debit Inventory Credit
May 07	J. Dryer	5704	1,250	800
May 12	R. Lamb	5705	340	200
May 25	T. Taylor	5706	750	500

Ex 7-3

Exercise 7-3 (Static) Cash receipts journal LO P2

Ali Company uses a sales journal, purchases journal, cash receipts journal, cash payments journal, and general journal. Journalize the following transactions that should be recorded in the cash receipts journal.

- November 3** The company purchased \$3,200 of merchandise on credit from Hart Company, terms n/20.
November 7 The company sold merchandise costing \$840 to J. Than for \$1,000 on credit, subject to a \$20 sales discount if paid by the end of the month.
November 9 The company borrowed \$3,750 cash by signing a note payable to the bank.
November 13 J. Ali, the owner, contributed \$5,000 cash to the company.
November 18 The company sold merchandise costing \$250 to B. Cox for \$330 cash.
November 22 The company paid Hart Company \$3,200 cash for the merchandise purchased on November 3.
November 27 The company received \$980 cash from J. Than in payment of the November 7 purchase.
November 30 The company paid salaries of \$1,650 in cash.

CASH RECEIPTS JOURNAL							
Date	Account Credited	Cash Debit	Sales Discount Debit	Accounts Receivable Credit	Sales Credit	Other Accounts Credit	Cost of Goods Sold Debit Inventory Credit
November 09	Notes payable	3,750				3,750	
November 13	J. Ali, Capital	5,000				5,000	
November 18	Sales	330			330		250
November 27	J. Than	980	20	1,000			

Ex 7-6

Exercise 7-6 (Static) Purchases journal LO P3

Gomez Company uses a sales journal, purchases journal, cash receipts journal, cash payments journal, and general journal. Journalize the following transactions that should be recorded in the purchases journal.

- July 1** Purchased \$14,500 of merchandise on credit from Hector Company, terms n/15.
July 4 Sold merchandise costing \$320 to C. Paul for \$430 cash.
July 8 Purchased \$420 of office supplies from Zhang Company on credit, terms n/30.
July 15 Paid Hector \$14,500 cash for the merchandise purchased on July 1.
July 21 Purchased \$885 of store supplies on credit from Staples, terms n/30.
July 22 Sold merchandise costing \$2,000 to MicroTran for \$2,500 on credit, terms n/30.
July 23 Purchased office supplies from Depot for \$305 cash.
July 25 Purchased \$3,000 of merchandise on credit from Alfredo Company, terms n/30.
July 27 Paid employee salaries of \$1,650 in cash.

PURCHASES JOURNAL							
Date	Account	Date of Invoice	Terms	Accounts Payable Credit	Inventory Debit	Office Supplies Debit	Other Accounts Debit
July 01	Hector Company	7/01	n/15	14,500	14,500		
July 08	Zhang Company	7/08	n/30	420		420	
July 21	Store Supplies / Staples	7/21	n/30	885			885
July 25	Alfredo Company	7/25	n/30	3,000	3,000		

Ex 7-7

Exercise 7-7 (Static) Cash payments journal LO P4

Marx Supply uses a sales journal, purchases journal, cash receipts journal, cash payments journal, and general journal. Journalize the following transactions that should be recorded in the cash payments journal.

- April 3** Purchased merchandise for \$2,950 on credit from Seth, Incorporated, terms 2/10, n/30.
April 9 Issued Check Number 210 to Kitt Corporation to buy store supplies for \$650.
April 12 Sold merchandise costing \$500 to C. Myrs for \$770 on credit, terms n/30.
April 17 Issued Check Number 211 for \$1,400 to pay off a note payable to City Bank.
April 20 Purchased merchandise for \$4,500 on credit from Lita, terms 2/10, n/30.

April 27 Purchased merchandise for \$7,000 on credit from Lite, terms 2/10, 1/30.
 April 28 Issued Check Number 212 to Lite to pay the amount due for the April 20 purchase less the \$90 discount.
 April 29 Paid salary of \$1,800 to B. Dock by issuing Check Number 213.
 April 30 Issued Check Number 214 to Seth, Incorporated, for \$2,950 to pay for the April 3 purchase.

CASH PAYMENTS JOURNAL							
Date	Check Number	Payee	Account Debited	Cash Credit	Inventory Credit	Other Accounts Debit	Accounts Payable Debit
April 09	210	Kitt Corporation	Store supplies	650		650	
April 17	211	City Bank	Notes payable	1,400		1,400	
April 28	212	Lite	Lite	4,410	90		4,500
April 29	213	B. Dock	Salaries expense	1,800		1,800	
April 30	214	Seth, Incorporated	Seth, Incorporated	2,950			2,950

Ex 6-7a

Laker Company reported the following January purchases and sales data for its only product. The Company uses a perpetual inventory system. For specific identification, ending inventory consists of 180 units from the January 30 purchase, 5 units from the January 20 purchase, and 15 units from beginning inventory.

Date	Activities	Units Acquired at Cost	Units sold at Retail
January 1	Beginning inventory	140 units @ \$ 6.00 = \$ 840	
January 10	Sales		100 units @ \$ 15
January 20	Purchase	60 units @ \$ 5.00 = 300	
January 25	Sales		80 units @ \$ 15
January 30	Purchase	180 units @ \$ 4.50 = 810	
	Totals	380 units \$ 1,950	180 units

References

Section Break

Use the following information for the Exercises 3-7 below.
(Static)

Exercise 6-7A (Static) Periodic: Gross profit effects of inventory methods LO P3, A1

Required:

1. Compute gross profit for the month of January for Laker Company for the four inventory methods using the periodic inventory system.
2. Which method yields the highest gross profit?
3. Does gross profit using weighted average fall between that using FIFO and LIFO?
4. If costs were rising instead of falling, which method would yield the highest gross profit?

Complete this question by entering your answers in the tabs below.

Req 1

Req 2 to 4

Compute gross profit for the month of January for Laker Company for the four inventory methods using the periodic inventory system.

Note: Round cost per unit to 2 decimal places and final answers to the nearest whole dollars.

LAKER COMPANY				
For Month Ended January 31				
	Specific Identification	Weighted Average	FIFO	LIFO
Sales	\$ 2,700	\$ 2,700	\$ 2,700	\$ 2,700
Cost of goods sold	1,025 _{+/−1}	923 _{+/−1}	1,040 _{+/−1}	810 _{+/−1}
Gross profit	\$ 1,675 _{+/−1}	\$ 1,777 _{+/−1}	\$ 1,660 _{+/−1}	\$ 1,890 _{+/−1}

< Req 1

Req 2 to 4 >

Explanation:

1. Sales (180 units × \$15 price) = \$2,700.

	Cost of Goods Sold
(a) Specific identification	
(180 × \$4.50) + (5 × \$5.00) + (15 × \$6)	\$ 925.00

$\$1,950 - \925	$\$ 1,025.00$
(b) Weighted average	
$(\$1,950 / 380 \text{ units} = \$5.13^* \text{ average cost per unit})$	
$180 \times \$5.13$	\$ 923.40
(c) FIFO	
$(140 \times \$6.00) + (40 \times \$5.00)$	\$ 1,040.00
(d) LIFO	
$(180 \times \$4.50)$	\$ 810.00

*rounded.

Required:

1. Compute gross profit for the month of January for Laker Company for the four inventory methods using the periodic inventory system.
2. Which method yields the highest gross profit?
3. Does gross profit using weighted average fall between that using FIFO and LIFO?
4. If costs were rising instead of falling, which method would yield the highest gross profit?

Complete this question by entering your answers in the tabs below.

Req 1	Req 2 to 4
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2. Which method yields the highest gross profit?

3. Does gross profit using weighted average fall between that using FIFO and LIFO?

4. If costs were rising instead of falling, which method would yield the highest gross profit?

2. Which method yields the highest gross profit?	LIFO
3. Does gross profit using weighted average fall between that using FIFO and LIFO?	Yes
4. If costs were rising instead of falling, which method would yield the highest gross profit?	FIFO

< Req 1
Req 2 to 4 >

2. LIFO method results in the highest gross profit.
3. Weighted average gross profit falls between the FIFO gross profit and the LIFO gross profit.
4. If costs were rising instead of falling, then the FIFO method would yield the highest gross profit.